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SUBJECT: GERMANY FAILS TO CLARIFY ITS POSITION ON GAS
PIPELINES

REF: A. A) BERLIN 0003

[1](#)B. B) BERLIN 0012

[1](#)C. C) BERLIN 0079

Classified By: MINISTER-COUNSELOR FOR ECONOMIC AFFAIRS ROBERT POLLARD r
easons 1.4 (b,d).

[1](#)1. (C) Summary: Germany's stance regarding Europe's three major gas pipeline projects -- Nabucco, Nordstream, and Southstream -- has become increasingly difficult to decipher. The apparent confusion results from a German tendency to try to appease all sides on contentious and complex issues. However, the lack of clarity in the German position has also caused headaches for RWE, the German company supporting the Nabucco project. RWE has become increasingly concerned that it will not receive the support it needs to counter Gazprom opposition. In private, German government sources have confirmed that Berlin supports Nabucco and Nordstream and dismisses Southstream, with the Economics Ministry most supportive of RWE/Nabucco and the Foreign Ministry more sensitive to Russian/Gazprom interests. The situation has become further muddled by Chancellor Merkel's attempts to remain above the fray. End Summary.

Confusion in the Press

[1](#)2. (SBU) The German press has painted a confusing picture regarding Berlin's position on gas pipelines and energy security. On March 19, the EU approved a 200 million Euro stimulus payment for Nabucco. On March 20, "Die Welt" reported that Chancellor Merkel is adamantly opposed to any EU financial assistance to the Nabucco Pipeline, and that her position has played into the hands of Russia. According to "Die Welt," Russian media has trumpeted Merkel's stance as concrete evidence that "Europe no longer wants Nabucco." There have been conflicting German statements, with the government at one point totally opposed to the EU payment, but then later acquiescing.

Confusion in the Government?

[1](#)3. (SBU) In January, German newspapers printed what they purported to be a leaked letter from Chancellor Merkel to the European Commission in which she expressed support for all three currently proposed gas pipeline projects -- Southstream, Nordstream, and Nabucco. Merkel was subsequently quoted in the German press as saying that Nabucco could not function without gas from Iran, which would not be forthcoming as long as Iran and the U.S. were at loggerheads. The latter comment seemed to echo often-repeated statements of Russian Premier Putin. Merkel's statements also appear to have encouraged stories in the "Asian Times" and "International Herald Tribune" reporting that Germany had withdrawn support from Nabucco.

Worry for RWE

¶4. (C) Neil McMillan, the head of Nabucco Political Liaisons and Strategies at RWE, told us that the German position was causing worry and confusion at the company. According to McMillan, it appeared that Berlin is saying "yes and no" to the project, and "this stance has the same negative effect as if it were saying no." McMillan worried that RWE's German rival E.ON is using its influence with the Chancellor's office to cast doubt on the viability of the Nabucco project and encourage Germany to throw its weight behind Nordstream, with Gazprom pulling the strings of its E.ON client.

¶5. (C) McMillan explained that if the transit countries fail to sign the Nabucco Intergovernmental Agreement at the May 7/8 Prague Neighborhood Conference the project could grind to a halt. This would, he argued, encourage potential gas suppliers to get cold feet, succumb to Gazprom pressure and jump ship. While they want to sell their gas, McMillan emphasized, they need to see evidence soon that Nabucco is really going to be built. Seen from this angle, RWE views Merkel's remarks as "unhelpful," as they "foster doubts in the minds of the suppliers that the Nabucco players are serious."

¶6. (C) In a subsequent conversation on March 27, McMillan was a little more upbeat, confirming press reports that Gazprom had run out of capital and was losing interest in Southstream. He also welcomed press reports confirming that Turkmenistan was ready to commit to Nabucco. McMillan interpreted these developments as indications that Gazprom had realized that Southstream was not viable and that Nabucco would be completed.

RWE Puts on a Happy Public Face

¶7. (SBU) On March 25, Econoff attended a briefing for energy industry insiders given by Stefan Judisch, the head of RWE Supply and Trading, Matthias Hartung, Member of the RWE board, and Dr. Peter Heinacher, the Head of RWE Public Affairs. The three, all key players in the Nabucco project, were frank and upbeat, laying out the essence of RWE's current position. Judisch stated that regardless of contending statements, Nabucco remains the most logical way to get Caspian energy to West European markets. He warned that without Nabucco, Gazprom would buy up all the gas and ship it through Russia at great expense to the consumers.

¶8. (SBU) The RWE team dismissed Southstream as a non-starter that will never be built and were buoyant regarding supply for Nabucco. They stated that Nabucco already had pledges from suppliers that more than met possible demand, and that Iran was not needed and would never be a viable supplier due to its infrastructure limitations. They also dismissed doubts regarding Turkey's reliability as a transit country, describing the country as a "NATO ally and a stable country."

The three also confirmed that RWE does not need German government funding, has not requested it, and requires only "political support" from Berlin. Instead, they called on the EU to provide financial support to poorer partners in the Nabucco consortium, such as Romania, which will require help to upgrade their infrastructure. While arguing that Nabucco would be built on schedule, Judisch and his colleagues cautioned that if all the gas in the pipeline were devoted solely to Germany, it would supply only one third of the country's energy needs, and only five percent of Europe's demand.

Straight From the Horse's Mouth

¶9. (C) On April 2, EMIN and ECONOFF met with Detlef Dauke, the Director General and Head of the Energy Policy Department in the Ministry of Economics. Formerly a senior aide to Economics Minister Glos, Dauke remains in regular contact with both the new Economics Minister zu Guttenberg and the Chancellery. Dauke confirmed that Nabucco and Nordstream are

"big issues" for Germany and that the German government is determined to confer regularly with Washington and Moscow to clear up misunderstandings. Making it clear that "Germany will need Russian gas for the foreseeable future," Dauke was adamant that Germany will remain dependent on Russia as there are no real alternatives.

¶10. (C) Dauke has participated in discussions with both Ukraine and Russia, and in his view, "both have lied about practically every subject that has come up for discussion." He noted that "Germany cannot tell who is the good guy and who is the bad guy and does not want to have to make a judgment," as both countries have created obstacles and brought problems on themselves.

¶11. (C) Dauke expressed strong German support for both Nordstream and Nabucco, without mentioning Southstream. Stating that, for Germany, diversification of supply is the crucial issue, he described Nordstream as a commercial project deserving of support. Likewise, he implied that Nabucco is a win-win project for Germany in that the pipeline will not be on German soil, while Germany will be able to purchase Nabucco gas and store it. He pointed out that the presence of EconMin State Secretary Bernd Pfaffenbach at the recent Budapest Nabucco conference showed that Germany supported the pipeline.

¶12. (C) Dauke said that RWE has located sufficient supplies for Nabucco from Turkmenistan and signed the contracts. He also conceded that "Nabucco offers advantages over Nordstream, as it would not depend upon Russia to supply the gas," and gas is a "political weapon" for Russia rather than a commercial proposition. According to Dauke, the German government has concluded that RWE has sufficient funds for Nabucco and needs no financial assistance from Berlin. That being said, "RWE will (eventually) get the political support from the German government that it needs." Stating that "this Ministry is fully on board as regards Nabucco," Dauke described Southstream as "Putinstream." He also stated that he had "no comment" regarding speculation that Chancellor Merkel does not oppose Southstream.

¶13. (C) Stating that he was pleased the U.S. remained neutral on Nordstream, Dauke noted that "we understand that there are various types of neutrality" and that "Germany only expects the U.S. to maintain neutrality...nothing more." Dauke clarified that Germany's initial opposition to EU funding for Nabucco did not necessarily indicate opposition to the pipeline. Rather, Germany opposes the outlay of funds that cannot be justified as stimulus, RWE has plenty of money, and the projects would not be completed for five or six years, well after the current economic crisis.

Comment

¶14. (C) The apparent confusion regarding Germany's position on the pipelines results from Berlin's determination to appear non-partisan and placate the various vested interests involved -- first and foremost Russia. This has compelled it to publicly support all three pipeline projects - while in reality it is not enthusiastic about Southstream. It has also become clear that the German government does not always speak with one voice. The Economics Ministry is most adamantly opposed to Southstream and Gazprom, while the Foreign Ministry is more solicitous toward Russia. Chancellor Merkel's attempts to remain above the fray have been interpreted by the press as being overly deferential toward Moscow. Nabucco may be gaining steam, but it is unclear whether Berlin is willing to risk angering Moscow to ensure that the pipeline moves forward. End Comment

Koenig